SPECIAL SECTION: INC.'S ANNUAL METRO REPORT

Inc.®

THE MAGAZINE FOR GROWING COMPANIES

'HANDS ON'
44 IDEAS
YOU CAN USE

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THE BEST PLACES IN AMERICA TO OWN A BUSINESS

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by
Frank Siteman/Picturesque

EARLY RETURNS

With so many business leaders in one place at one time in an election year, we couldn't resist the temptation to conduct a survey of the group's political attitudes. Here are the highlights:

As president, who do you think would best serve and support entrepreneurial businesses?

Ross Perot	67%
George Bush	23%
Bill Clinton	5%
Others	5%

If the election were held today, whom would you vote for?

Ross Perot	43%
George Bush	40%
Bill Clinton	9%
Others	8%

Do you support the Brady Bill, restricting the purchase of handguns?

Yes	75%
No	19%
Don't know	6%

Do you believe abortion should be— (Check only one)

Legal	61%
Restricted	23%
Illegal	12%
Don't know	3%

On a scale of 1 to 5, to what extent do you believe business owners should take responsibility for the environment? (Circle one)

1 Not at all	—
2	1%
3 Somewhat	13%
4	49%
5 To a very large extent	37%

Would you and your company be willing to spend more money to ensure environmental quality?

Yes	73%
No	6%
Don't know	21%

So, as a group, are Inc. *500 CEOs conservative or liberal, or do we need some new definitions? You tell me.*

◗ At a seminar on planning, Michel Robert of Decision Process International, of Westport, Conn., observed that a company could often get by without a strategic vision, provided it was operationally competent. He called this the Christopher Columbus School of Management. "When Columbus left, he didn't know where he was going. When he got there, he didn't know where he was. When he got back, he didn't know where he had been. But he got there and back four times in 10 years without getting lost."

◗ We didn't hear nearly as much grumbling about the economy this year as last year, when conference attendees warned us that the recession was much deeper than the Bush administration was letting on. (As it turned out, of course, they were right.) While the mood in Des Moines was not exactly bullish, CEOs seemed more upset about a growing wave of government intervention in the day-to-day conduct of their businesses. Of particular concern were the potential effects of new laws that attempt to redress social problems by regulating the workplace. "With the passage of the Americans with Disabilities Act and the Civil Rights Act of 1991," said one CEO, "legislators with good intentions have created a nightmare for small companies. Every company at this year's conference will have at least one nasty suit pending by the time next year's conference rolls around, thanks to these two pieces of legislation alone."

DEFINITION OF A BOOTSTRAPPER

Someone who throws nickels around as if they were manhole covers.

—Courtesy of Max Carey, CEO of Corporate Resource Development, in Atlanta

"The mechanics of running a business are really not very complicated when you get right down to the essentials. You have to make some stuff and sell it to somebody for more than it cost you. That's about all there is to it, except for a few million other details."

—From a presentation on strategic alliances by Steve Snyder of Software Partners/32

MARKETING SLOGANS YOU THOUGHT WOULD NEVER WORK

"Trust us, we're in sales." (Computer Graphics Distributing, in Gaithersburg, Md., #144 on the 1991 *Inc.* 500)

◗ Baseball Hall of Famer and native Iowan Bob Feller held his own seminar on compensation prior to throwing out the first pitch in the Big Game. Bad compensation practices, he said as he autographed baseballs for attendees, have screwed up our national pastime. "The problem is that no one is willing to get paid for performance anymore. They want to make millions if they have a great year, but they aren't willing to give anything back if they have a terrible one." We could see the heads of CEOs everywhere nodding in agreement.

◗ Why you won't see Dick Weigen, founder and CEO of Corporate Book Resources (#275 on the 1989 *Inc.* 500), hanging around any workshops on managing people: his is the only company in the 10-year history of the *Inc.* 500 to have no employees.

HOW TO HANDLE LIFE AFTER YOUR COMPANY

ERIC KRISS: "I set up a network of CEOs I meet with regularly to help me deal with issues associated with selling my business." **DON BURR:** "Yeah, I'm familiar with those types of support groups. I've been kicked out of six of them."

◗ Judging by the registration list, it appears that the most popular name for a young, growing company these days is *Phoenix*. As ancient legend has it, the phoenix was an eagle that nested in the top of a palm tree. Every 500 years the sun would set the nest aflame, and an even more powerful bird would rise from the ashes. Of course, product life cycles were a lot longer back then. ⌟

RESULTS FROM
MAY

The Inc. FaxPoll™

WHAT ARE YOU DOING ABOUT SEXUAL HARASSMENT?

Surprisingly little, it seems.

59%

YES

IS SEXUAL HARASSMENT A MAJOR PROBLEM IN THIS COUNTRY?

No

41%

Most respondents think sexual harassment is a major problem in this country. Not surprisingly, women (82%) were more likely than men (43%) to say it was a problem. (Overall, 60% of respondents were men and 40% were women.) Attitudes also varied with age and position in the company. Younger respondents and those further down the ladder were more likely to say it was a problem. Most do not feel harassment is a significant issue in their company. Only 42% categorize it as even a minor problem. Some of you accused us of making a mountain out of a molehill. "Don't we have something more important to worry about?" one asked. "Women should not dress up as if they are trying to get everyone's attention," complained another. Others were more sympathetic: "As men, we can't even imagine the constant insinuations that surround women in the workplace."

HOW EXTENSIVE A PROBLEM IS SEXUAL HARASSMENT IN YOUR COMPANY?

Not at all a problem	58%
Minor problem	30%
Significant problem	10%
Major problem	2%

Large companies (with more than 100 employees, 83%) were more likely than small companies (6 to 10 employees, 25%) to have a policy. They are also more likely to have been sued. And 50% of those that were sued had to pay damages, in some cases more than $100,000. But does that mean small companies don't need a policy? More than a third of you haven't even thought about it. Some have an it-can't-happen-here attitude: "We work so hard that sexual harassment is impossible." And there are those who feel their corporate culture precludes the possibility: "We respect one another enough that this will not be a problem." Others feel immune: "As a woman, I will not tolerate harassment."

DOES YOUR COMPANY HAVE A SEXUAL-HARASSMENT POLICY?

Yes, we have a specific policy	45%
No, we haven't even thought about it	34%
No, we're just starting to think about it	17%
No, but we're writing a policy	5%

IF YES, WHICH OF THE FOLLOWING BEST CHARACTERIZE YOUR POLICY?

Promptly investigate every complaint	24%
Have held meetings to discuss it	22%
Take appropriate action swiftly	22%
Haven't publicized it well	10%
Designated ombudsman to receive complaints	9%
Conduct ongoing educational sessions	6%

Still, regardless of your company size, culture, or male/female ratio, you can and should prevent problems by letting everyone know with a specific policy exactly what's acceptable and what isn't—and even that is no guarantee. One respondent says his company's policy is "laughed at, unless you raise hell and hire a top-gun lawyer." —*Christopher Caggiano*

You may feel that in a small company you can keep an eye on everything and stop any problems in their tracks. But do you know harassment when you see it? When this poll appeared, we printed these two scenarios, which are based on actual court cases, and asked you to tell us whether you thought they constituted sexual harassment:

A. *A male mechanic is assigned to provide on-the-job training for a female mechanic. Although friendly, he asks her out for drinks after work and propositions her. He winks at her and suggests she give him a rubdown. She asks for work advice, and while he does give it, he often asks, "What will I get for it?" Another mechanic slaps her on the buttocks, and a third suggests that he thinks she must moan and groan while having sex.*

Yes, this is harassment 98% No, this isn't harassment 2%

Virtually everybody thought this was harassment. The court, however, did not. The advice was not withheld from the woman because of her refusal to "give something" in return. There was no indication that any of the offensive conduct was repeated or relentless. The courts found that the situation, while annoying, was not harassment. Note that this case was decided in 1986. More recently, the focus has been on what the alleged victim felt in the situation, not what the alleged harasser intended.

B. *A female lawyer works at an office where consensual sex between certain male lawyers and female subordinates is a matter of public knowledge. She claims that the sexual relationships in the office result in the subordinates' career advancement and create a hostile work environment that undermines her performance. Two overtures have been directed at her personally: a repeated offer of a ride home by one lawyer; being kissed at a party by another. But neither involved a stated or implied quid pro quo, and neither was the cause of her complaint.*

Yes, this is harassment 48% No, this isn't harassment 52%

The court said that when employees who submit to sexual advances get preferential treatment, and it's a matter of public knowledge, that is harassment. The Equal Employment Opportunity Commission says harassment comprises "unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment."

Note: Multiple responses account for total percentages above 100%.

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LETTERS

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Inc.
HOW TO
FINANCE
ANYTHING
FROM NEW BUSINESSES TO NEW PRODUCTS - 26 WAYS TO TAP INTO HIDDEN SOURCES OF CASH - AN INC. USER'S HANDBOOK
PLUS: THE ANATOMY OF A START-UP · GOOD FORM
THE ECOLOGY OF COMMERCE · BY PAUL HAWKEN

HOW TO FINANCE ANYTHING

In April's cover story, Bruce G. Posner cataloged some hidden sources of cash for the 1990s ("How to Finance Anything"). As Posner wrote, the list was not meant to be exhaustive but was intended to help readers explore the range of possibilities. Here are some more worth exploring:

You did not mention a technique known as purchase-order financing, whereby fast-growing companies buying and selling finished goods can finance new business. Not surprisingly, it is unavailable from conventional lending sources such as banks and factors.

In purchase-order financing, vendors of finished goods can take firm, noncancelable orders from creditworthy end-buyers and leverage them to obtain financial guarantees or letters of credit from middlemen. As such, the technique can be used by importers, export traders, and domestic wholesalers. It is more expensive than conventional bank financing is but offers an alternative to giving up orders for lack of financing, or relinquishing control to a venture capitalist.

Michael T. Schlegel
Managing Director
Trading Alliance Corp.
New York City

—

Many states now have export credit, guarantee, and insurance programs designed to help small and medium-size manufacturers sell their goods abroad. By getting together with their financier and the state program director, many exporters have been able to offer their overseas buyers the deferred-payment terms buyers around the world have come to expect and often demand.

Albert H. Hamilton
Senior Associate
First Washington Associates
Arlington, Va.

—

There is one borrowing strategy, the skip-payment loan, that I believe should be added to the list. SPLs are effective in leveling cash flow and can be used advantageously by any business at any stage of development. The SPL payback schedule includes skipped payments that have been prenegotiated by the borrower and the lender, usually to reduce anticipated strains on cash flow. Businesses that find SPLs attractive are usually seasonal (e.g., in tourism and construction), but any business or individual can use them.

Richard A. Formato
Attorney
Boylston, Mass.

FATHERS AND SONS

I just read Joshua Hyatt's "Fathers and Sons" [May 1992]. After college, I, too, wrestled with the choice of either entering the family business in a time of need or setting out on my own. I chose the family business but for many years have dreamed of what I could have done on the open market. Now, 10-plus years later, I am sure I made the right choice and couldn't imagine being anywhere else. I was not as insightful as Hyatt in identifying the many levels of my emotional turmoil, but I sure recognized every situation he shared in his article.

Kevin Edgar
Treasurer
Silver Creek Nurseries
Manitowoc, Wis.

—

I am sitting in a restaurant at 7:30 p.m., working on my part-time business as a marketing consultant despite the fact that I have a full-time, very secure position with my father's company.

I've made many changes in the company and want to make more, but it strains the relationship between me and my father. But I can't bear to stand by and watch the company decline. So, how long do I stay? Do I confront my father on his succession plans? Or do I walk away knowing that it's his business to run the way he wants until he dies?

Name Withheld

GRADING THE AMERICAN DREAM

The American Dream is an excellent feature. But it's time for a box score. Many of the businesses you have featured are asking for more than a buyer could ever get back out of it. How many have actually sold? How many are still on the market? And what did they sell for versus what was being asked?

Lewis Raborn
President
Homes for Sale by Owner Magazine
Dallas

Reporter Alessandra Bianchi has done just that in this month's feature "The American Dream Revisited." So, turn to page 58 and see how they fared.

HOUSE OF CORRECTIONS

We mistakenly reported in May's In the Office in "Mileage-Award Insurance" that TWA had disappeared along with Pan Am and Midway. As of this writing TWA is still very much in business.

Two companies were omitted from the 1992 *Inc.* 100 list of fastest-growing public companies: CIS Technologies Inc., a Tulsa-based provider of health-insurance-reimbursement services with a five-year compound growth rate of 261%; and Mid-American Waste Systems, based in Canal Winchester, Ohio, a provider of nonhazardous-solid-waste-disposal services, with a five-year compound growth rate of 95%.

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THE BEST PLACES IN AMERICA TO OWN A BUSINESS

The truth: There isn't a single best metro area to start and grow new companies, but there's a best place to start *yours* • BY JOHN CASE

EVER FEEL YOU'RE IN THE WRONG CITY? BOB FREESE DID.

Freese and three colleagues from 3M Corp., in St. Paul, Minn., set out on their own a few years ago. Their new company's product was a given: optical storage devices for computers, a field their giant employer hadn't been interested in. They figured—rightly, as it happened—that they could raise seed money from prospective customers to build a prototype. Even the name, Alphatronix, proved easy to come up with.

But the place, the city that would be the new company's home, was a puzzle. Freese didn't want to stay in the Twin Cities. The cost of doing business in Minnesota was high. And he had learned while at 3M that A-list recruits were reluctant to move to so cold a climate, even for a job with one of the world's premier corporations. How could a start-up attract good people?

Engineers all, Freese and his colleagues began a methodical search for a home base, compiling data on cities all over the United States. The search produced a list of 15 possibilities. By some lights, Freese realized, it was a surprising selection. Despite Alphatronix's high-tech orientation, no city in California or New England made the cut. Neither did population magnets like Las Vegas or Orlando. Instead, the four entrepreneurs found themselves considering locations such as the Kansas City area; Washington, D.C.; and the Raleigh-Durham area of North Carolina. They developed a matrix of five factors and ranked the regions on each. The one scoring best on all five, they decided, would win.

May we have the envelope, please? And may we find out how a less-than-glitzy place like Kansas City was in contention, while Dallas and Boston and San Jose, Calif., were not?

Sure—in a minute. First, by way of prologue, consider how important and how difficult a young company's choice of location can be.

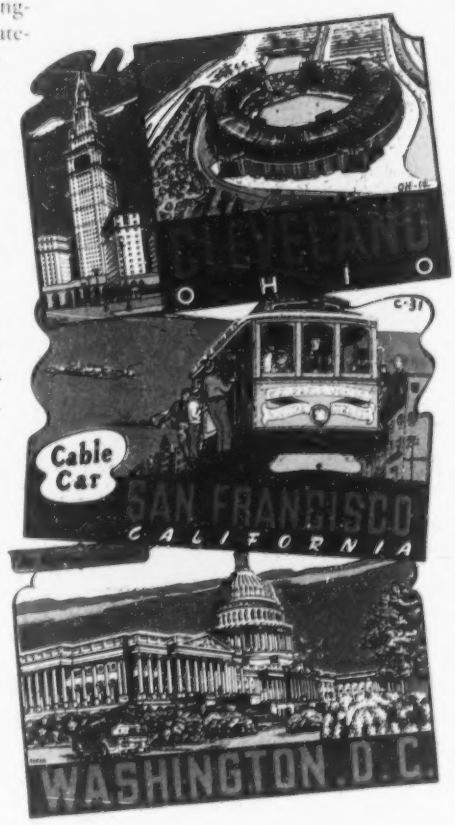
For one thing, business and economic conditions vary dramatically from region to region in the United States. In one recent month the metropolitan unemployment rate was 9.9% in Detroit and 3.3% in Omaha, only a few states away. Cities differ not only by obvious measures (population growth, cost of living) but by subtler ones as well (the average restaurant in Orlando sells 33% more than its counterpart in nearby Tampa/St.Petersburg and 55% more than an eatery in Detroit). "There's really no national economy," says Mitchell Horowitz of the Corporation

for Enterprise Development, a Washington, D.C., organization that tracks state-level trends. "Every state seems to have its own competitive positions and its own strengths and weaknesses." Cities' strengths and weaknesses are even more pronounced; they can make or break a new company.

Trouble is, there's no way of adding up all the virtues and defects into a single good-to-bad scale. Low tax rates? An advantage, so it would seem—but not if low taxes mean lousy public schools. A tight labor market? A sign of a booming economy—but a start-up in a tight labor market may have trouble finding employees. Freese wanted a place with a favorable business climate, just not too favorable. "If a community is offering you extra-special incentives, tax abatements, or whatever, there's usually some reason for it," he explains. "Maybe it has really high unemployment. And maybe that's because it has an uneducated work force."

To be sure, the Alphatronix story is unusual. Most entrepreneurs start their businesses where they live and rarely even consider anywhere else. But even homegrown company builders need a working knowledge of business geography. Maybe you plan on franchising your young company or expanding into another region. Maybe your start-up has competitors in other cities who don't face the same costs and constraints you do. Whenever the location issue crops up—and it will—you'll find yourself in a position similar to Freese's, figuring out what kind of city makes sense for your particular business.

At that point, you'll have to throw out preconceptions and prejudices about what various cities have to offer entrepreneurs. Some enjoy brighter prospects than others. Some provide better combinations of business inputs—access to customers, suppliers, employees, money—than others. Maybe most important, some have learned how to help young companies in ways that spell the difference between success and failure. Growth, it turns out, is not only where you find it, but where you make it.



'If we were located even 50 miles away, I'd be tearing my hair out every day,' says Jack Pierson of Preco Industries. 'Here, we get instant support.'

THE WEALTH OF CITIES

IF THEY WERE SETTING OUT AFRESH, most entrepreneurs would choose to build their businesses in robust local economies, regions that thrive in upturns and hold their own in recessions. What makes for such economic health? During the 1980s, the key ingredient seemed to be a swelling population. Midsize Sunbelt cities, fed by massive influxes of immigrants, regularly topped the charts on indicators such as job growth and business starts. For a while, they even seemed to be skipping the current slowdown.

Today some of those booms have gone bust. Between 1988 and 1990, according to data compiled by *Inc.* from the Bureau of Labor Statistics and other sources, the Greenville-Spartanburg region of South Carolina ranked fourth in the nation in job growth. In the past two years its rank has dropped to 109th. That's a story repeated elsewhere in the Southeast (Fort Myers, Fla., plummeted from 10th to 126th) and in parts of California (San Diego fell from 22nd to 120th). One reason, of course, is that growth itself—in the form of construction, real estate, and all the stores and service firms needed to serve a growing population—was among those areas' biggest industries. Then immigration tapered off, partly because of the recession and partly because the huge baby-boom generation was growing older and less mobile. That touched off a downward spiral.

"Rapid growth can sound sexy," says location consultant Dennis Donovan of the Wadley-Donovan Group, in Morristown, N.J., "but it can overtax an area's infrastructure. By itself it isn't necessarily a good thing."

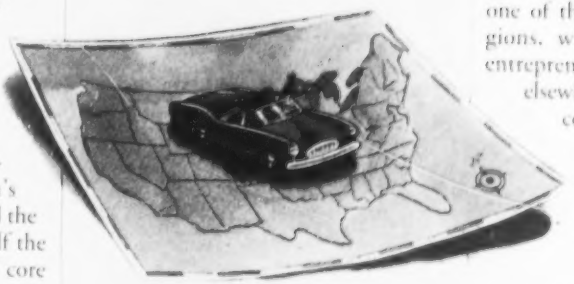
The healthiest cities, by contrast, have evolved distinct economic roles in the emerging global marketplace. (See "Pick Your Place," page 40.) Miami, emulating New York City and Los Angeles, is becoming a center of international trade and finance; it's the hub for the United States' growing business with Latin American nations. Phoenix, capitalizing not just on sunshine and retirees but on a booming electronics sector led by companies such as Motorola and Intel, is an up-and-coming regional capital. (DRI/McGraw Hill projects that Phoenix will be ninth among the top 10 job growers between now and the year 2000; it's the largest city to make the list.)

Midwestern metro areas, home to the manufacturers that are storming back into global markets, are on the upswing as well. "The major exporters in this country are in the Midwest," says Stan Duobinis, senior vice-president with the WEFA Group, an economics-forecasting and consulting firm in Bala Cynwyd, Pa. "The states that touch water may do the shipping, but they don't have the export industries."

The Raleigh-Durham area of North Carolina—high on Freese's list—is a good example of a metropolitan area

with just such a "core competence," to use the currently fashionable term. Its Research Triangle Park alone houses about 60 high-tech companies and is in the process of expanding into 2,000 undeveloped acres. Recession? At last report the region's unemployment rate had climbed all the way to 3.5%, which is less than half the national rate. A different kind of core competence accounts for the continuing position of Las Vegas at or near the top of everybody's economic charts, including our Most Business Starts rankings. (See page 38.) Sure, Vegas has been fed by huge population flows. But it's the gaming-and-entertainment industry that's really watering the desert city's bloom. "Las Vegas has become an international destination city," observes Duobinis.

For brand-new companies, of course, a healthy economy can be a bane as well as a blessing. The reason: high costs. The San Francisco Bay area, for example—particularly Silicon Valley—continues to boom; as it did last year, San Jose tops our list for highest number of young high-growth companies. But it's also one of the nation's most expensive regions, which is why even high-tech entrepreneurs frequently set up shop elsewhere. Nor is it easy for newcomers to navigate California's maze of regulations. "California is a very antibusiness state," says Freese.



TOP OF THE LINE: EMPLOYMENT

JOB GROWTH 1990-1991

1. SALT LAKE CITY
2. HOUSTON
3. DENVER-BOULDER
4. RIVERSIDE, CALIF.
5. INDIANAPOLIS

SOURCE: Bureau of Labor Statistics, Woods & Poole Economics, Washington D.C. Excludes cities with fewer than 500,000 people in 1991.

PROJECTED JOB GROWTH 1991-1996

1. RIVERSIDE, CALIF.
2. ORLANDO
3. HOUSTON
4. SAN DIEGO
5. SACRAMENTO

SOURCE: DRI/McGraw Hill, Lexington, Mass. Excludes cities with fewer than 500,000 jobs in 1996.

INGREDIENTS OF GROWTH

WHO WOULD START A COMPANY IN New York City? The Big Apple has slumped in the last couple of years, losing more than 100,000 jobs. Its costs are astronomical, its public services dreadful, the hassles of doing business off the charts. None of that fazes entrepreneurs such as Sandy Chilewich, who cofounded Hue Legwear 13 years ago in New York and would do the same thing today in a minute. "There's no other place for our kind of business," says Chilewich. "It's where the buyers come. Any fashion services we might use have offices here. It's the place to be."

The attractions of world capitals such as New York and Los Angeles have always been apparent to company builders

THE INC. 1992 REPORT ON THE BOONDOCKS

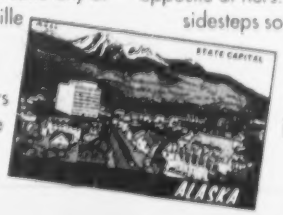
Product in hand—a new electronic atlas—Richard Smith began casting about town for a first-rate software-patent lawyer. There wasn't one; Smith had started his company in Fayetteville, Ark.

Jackie Stewart chewed the end of her pencil as she scanned the darkening sky. For the fourth day in a row, no planes would be flying out of Anchorage, Alaska. Her shipment of goods from her Great Alaska Catalog Co., in Juneau, wouldn't reach her customers in time for the Christmas holidays. It was the second season in a row: last year the volcano, now foul weather.

Tim Sharp set his alarm, for the following morning he was off to Germany to present his high-tech, superabsorbent potting material, EZ Soil, to the biggest merchandiser of garden products in Europe. This was no small matter: the nearest airport was three hours away from his hometown of Idabel, Okla.

Mention small-town enterprise and you conjure up Norman Rockwell visions of neighborhood hardware stores and five-and-dimes. But look again: a new breed of growth company is inhabiting Main Street. Smith, Stewart, Sharp, and scores of others are part of a wave of entrepreneurs setting up businesses in places not on anyone's list of hot spots. Instead of Salt Lake City or Silicon Valley, they're in towns such as Fayetteville (population 42,100), Juneau (population 26,800), or Idabel (population 7,000).

Start a business in the boondocks, entrepreneurs like to say, and people on the street will look you in the eye and greet you by name. You can spend your lunch hour cross-country skiing or sitting in a meadow in untrammeled solitude. In addition to quality-of-life advantages, small-town start-ups typically enjoy savings from lower office, service, and cost-of-living expenses ("so you can struggle along not making very much and still manage to survive," says Smith), as well as relative ease of access to start-up funds or lines of credit (familiarity breeds trust). That's why George Harris chose Lewiston, Maine (population 39,800), for his $2-million, high-tech manufacturing business. And why Alex Kahler, for his biotech start-up, made the unconventional selection of Brookings, S. Dak. (population 16,300), where, to his delight, business taxes are "virtually nonexistent" and there is no state income tax.



Boons aside, the boondocks have their share of drawbacks. The price of setting up shop in a place no one has heard of includes compulsory adaptability. Smith had to find a patent lawyer in Los Angeles; then, realizing he couldn't market his product worldwide from Fayetteville, he signed on with a Northern California software publisher. Stewart ran around the weather by switching to a fulfillment house on the mainland—a mail-order outfit in Louisiana, Mo. (population 5,000), whose busy season was the opposite of hers. Sharp can't escape his airport commute, but he sidesteps some trips by reading reams of faxes daily from all over the world.

Are the pastoral virtues worth it? These entrepreneurs, at least, have no plans to move back to the bright lights and big city.

—*Alessandra Bianchi*

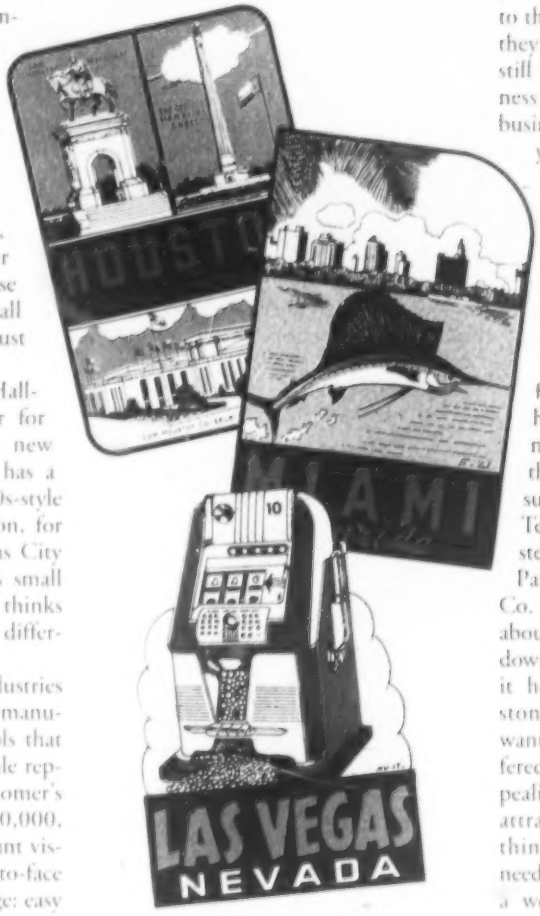
with highly specialized needs. For certain industries—fashion and financial services are only two—the mammoth metropoles provide unparalleled access to customers and suppliers, a large pool of specially skilled employees, and a variety of supportive institutions such as training schools. What's often forgotten, however, is that other cities, too, offer their own unique combinations of these business inputs. A new or small company does best in a city with just the right blend.

Take Kansas City. Home to Hallmark and H&R Block, a suitor for McDonnell Douglas's planned new plant, the bistate burg scarcely has a reputation as a hotbed of 1990s-style entrepreneurship. Yet Jack Pierson, for one, is convinced that his Kansas City location is a key element in his small company's growth. Bill Crooks thinks the same way—for a completely different set of reasons.

Pierson's company is Preco Industries Inc., a $7-million, 60-employee manufacturer of specialty machine tools that are sold worldwide. Since each sale represents an investment on the customer's part of from $40,000 to $250,000, Preco relies heavily on mutual plant visits and other elements of face-to-face selling. The Kansas City advantage: easy air access for domestic customers, not-too-difficult access for buyers from both Europe and the Far East, and $60 hotel rooms for all. Then too, Preco relies on engineers and skilled technicians, which the region's well-regarded schools and universities turn out in quantity, and on a dense network of highly specialized suppliers, hard to find outside a world-class manufacturing region like Kansas City. "If we were located even 50 miles away, I'd be tearing my hair out every day," says Pierson. "Here, we get instant support from a dozen different suppliers that are just critical to us."

Unlike Pierson, Bill Crooks sells locally and needs little specialized talent. But he's no less enamored of his location. Crooks and partner Paul Khoury, having pursued nationwide careers in the restaurant industry, came home to Kansas City a few years ago to start PB&J Restaurants Inc. The company, which now includes four eating establishments and a catering service, boasts annual sales of around $8 million.

The keys to PB&J's rapid growth?



'With my kind of business I could have located anywhere,' says Gerard Hall of SportsMedia Technology. 'But I wanted a great place to raise a family.'

One is loyal customers; in Kansas City, says Crooks, people stay with a restaurant they like rather than scurry to the latest trendy bistro. A second is money. Like most start-up entrepreneurs, Crooks and Khoury had to pony up virtually all their cash for the first restaurant, though they also managed to land a Small Business Administration–guaranteed loan. Ever since, however, the two have found local financiers receptive to their expansion plans, mostly because they made themselves known in what is still a relatively small downtown business community. "People see you at business lunches," says Crooks, "and you move through the system a little quicker because you get to know people. That's a tremendous advantage, having a personal relationship—not just with a loan officer, but with the owner of the bank." Picture that happening in New York or Chicago.

The critical factors naturally differ from start-up to start-up and hence from city to city. Doc Hamm moved from Washington, D.C., to the Raleigh-Durham area to make sure his new company, SilentPower Technologies Inc., would have a steady supply of mechanical engineers. Paul Shand started the Classic Marble Co. in Cleveland because the city was about to embark on $2 billion worth of downtown construction—and because it housed a sizable supply of skilled stoneworkers. Freese of Alphatronix wanted to make sure his new home offered good public education and an appealing quality of life, and thus would be attractive to recruits. But he w sn't thinking Boise or Boulder; he also needed quick access to customers and to a well-developed high-tech infrastructure, complete with technically oriented universities. Finding the right place, he felt, was central to "maximizing our probability of success."

HELP FOR START-UPS

BACK IN 1989 VINCE CAMPANELLI and Frank McConnell had a plan to open a graphic-arts-production-support service, a specialized company to work with ad agencies and corporate-communications departments. They figured they'd do it in San Francisco, where they had lived for 15 years and where they had all their business contacts. Looking for assistance in getting started, they visited the San Francisco Chamber of Commerce and the local SBA office. Not much help was available, they discovered; they were on their own. Then, on a vacation, they visited Cleveland, where both had grown up. On a lark they stopped in at the Cleveland Growth Association's Council of Smaller Enterprises, known as COSE, which serves Greater Cleveland.

"I was astounded," remembers Cam-

panelli. That first visit quickly led to a three-hour meeting with "10 or 15 specialists in all different areas of starting a business"; later, COSE provided the partners with quantities of demographic information and with introductions to veteran Cleveland entrepreneurs willing to share their experiences. When Campanelli and McConnell decided to launch Technigraph Media Services Inc. in the city, COSE offered training in how to write a business plan, introductions to the local SBA and Service Corps of Retired Executives (SCORE) offices, and hands-on assistance in locating financing. "They literally put all the pieces of the puzzle together for me," says Campanelli. Even now, he adds, he continues to review his company's progress with volunteer COSE business counselors.

Cleveland, which a decade ago witnessed the virtual collapse of its old-line industrial economy, "gets" two fundamental facts about the future, namely, that prosperity depends mightily on entrepreneurship and that entrepreneurship can be nurtured. "After the pain we went through, we began to work like crazy to stimulate new ventures of all kinds," explains COSE executive director John Polk. "We recognized we could create a pretty interesting economy, where small companies play a very significant role."

For start-ups, the benefits of this attitude are considerable. COSE runs what is probably the nation's best-developed entrepreneurial-support program: it includes not only extensive start-up assistance but three separate tracks of ongoing management education. The organization also administers a widely admired health-insurance program for small companies. (See "Safety in Numbers," Hotline, May 1991.) Like Campanelli, plenty of Cleveland company owners feel COSE has been a critical element in their success. Moses Saleh, a franchisee of the Coffee Beanery Ltd., wrote a business plan with the organization's help, then submitted it for criticism to three bankers on COSE's list of volunteer consultants. He got back comments, changed the plan, and submitted it to real bankers—one of whom had already reviewed it as a volunteer. "It was like getting the answer to a test before you take it," exults Saleh, who landed a $150,000 loan.

Incredibly enough, COSE is only one of several entrepreneurial-assistance programs in Cleveland. Economic Development Inc. (associated with Case Western Reserve University) runs incubators, provides counseling for start-up entrepreneurs, and sponsors venture-capital conferences. The Cleveland Senior Council, a private-sector version of SCORE, matches start-ups with teams of experienced businesspeople. A recently published list of area resources includes literally dozens of other agencies and organizations committed to helping new and small companies.

The Cleveland model, if it can be called that, is slowly being emulated in other cities, including some that were high on Bob Freese's list. Kansas City's chamber of commerce, for example, runs an entrepreneurial-training program; an organization called the Silicon Prairie Technology Association has set up health-insurance and cooperative buying arrangements for small companies.

In at least one respect, Kansas City is going Cleveland one better: Silicon Prairie and the Ewing Marion Kauffman Foundation's new Center for Entrepreneurial Leadership recently announced the creation of a large-scale information network designed to match investors with early-stage companies. "We've suffered from a lack of seed and venture capital," says Silicon Prairie's Jerry Stogsdill. "Now we're addressing that issue very aggressively."

Top of the Line: Entrepreneurship

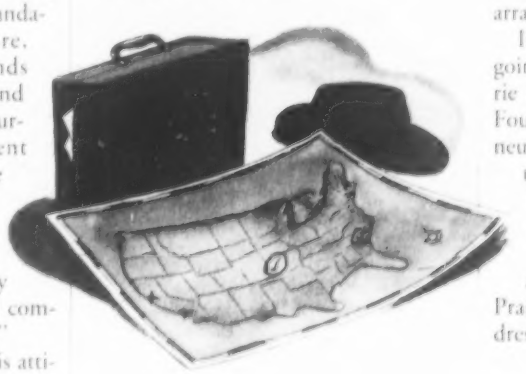
MOST BUSINESS STARTS 1989-1991

1. Las Vegas
2. Orlando
3. Phoenix
4. Atlanta
5. Raleigh-Durham, N.C.

MOST YOUNG HIGH-GROWTH COMPANIES 1989-1991

1. San Jose, Calif.
2. Las Vegas
3. Anaheim, Calif.
4. Seattle
5. Houston-Galveston

SOURCE: Cognetics Inc., Cambridge, Mass. Business-starts leaders are cities with the most new businesses of five or more employees, founded between December 1989 and December 1991, calculated as a percentage of all businesses in the area. Young, high-growth companies are companies whose employment growth (in both absolute and percentage terms) exceeds a certain threshold; the leaders are cities with the most high-growth companies as a percentage of all young companies in the area. Metropolitan areas with fewer than 500,000 people were excluded.



Et Cetera

In some ways, U.S. cities are more different than alike, and finding the right place means knowing what's important for your particular company. Some random samples:

THE TALENT POOL: FULL-TIME COLLEGE STUDENTS PER 1,000 WORKERS

Boston	(higher) 119.5
New York City	107.1
Phoenix	57.5
Kansas City	25.5
Fort Lauderdale, Fla.	(lower) 9.8

COST OF LIVING (U.S.=100)

Salt Lake City	(lower) 93.2
Kansas City	97.7
Cleveland	104.1
Riverside, Calif.	122.5
New York City	(higher) 149.2

SOURCE: The Wasley-Donovan Group, Morristown, N.J. Metro areas with population of fewer than 1 million were excluded.

And Now: The Envelope

ALPHATRONIX'S BOB FREESE AND HIS partners looked carefully at Kansas City, as well as at other finalists such as Washington, D.C., and Salt Lake City. Various cities scored high on one or another criterion. Washington had a well-developed high-tech infrastructure; it also had high costs and a mixed quality of life. Salt Lake City had moderate costs and a high quality of life, but transportation was a problem: reaching customers on the East Coast wouldn't be easy. The ultimate winner: Research Triangle Park, in the Raleigh-Durham area of North Carolina. "Other places in the country might look better in any given category," says Freese. "But when you begin looking at two or three criteria, this area just pops right up."

Ironically, the Research Triangle region is a Johnny-come-lately to the entrepreneurial economy: most of its technology companies are branches of national or international concerns, and

start-ups until recently were few in number. "If you left IBM down here, people would ask you why you lost your job," says Fred Hutchison, a Raleigh lawyer who has been involved in local economic-development efforts. "In California they'd ask why it took you so long." But in the past few years, Hutchison and other observers say, the atmosphere has changed noticeably. An organization called the Council for Entrepreneurial Development (CED) offers start-up assistance and networking opportunities. The North Carolina First Flight Center, a state-sponsored nonprofit, recently opened Research Triangle Park's first new-business incubator. Among the signs of change: people such as Gerard Hall, a young New Jersey native and Harvard graduate who runs two-year-old SportsMedia Technology Corp. and has a company called Schoolbook Computer Systems almost ready to launch. "With my kind of businesses, I could have located anywhere," says Hall. "But I wanted a great place to raise a family and settle down, as well as a great place to run a high-tech company."

The emerging interest in entrepreneurship clinched the deal for Freese. "A small company coming into this area gets a lot of help from an organization like the CED, all of it free," he says. One key moment for Alphatronix: it made a presentation at a venture-capital forum organized by the CED. That led to one contact, which led to another, which led eventually to two rounds of expansion capital totaling $4.5 million.

Today Freese couldn't be happier with his Research Triangle home. Even so, you get the sense that several of the cities on his list would have been fine, too—and that they aren't the cities that would have been on anyone's list in the past. "You go back seven or eight years," he says, "and everyone was talking about Silicon Valley, Southern California, and Boston. Those areas just aren't as fertile for growing new companies today.

"But Cleveland, Kansas City, Raleigh-Durham—they all have a reasonably good quality of life, good transportation, good educational systems, a favorable climate for start-ups." The right city for you? It's your call. But your own list, like Freese's, may include some unexpected candidates. ⌟

Data for this article were compiled under the direction of special-projects consultant Sara Baer-Sinnott.

PICK YOUR PLACE

When it comes to cities, one size doesn't fit all

Everybody loves to see who's on top, which is why so many books and magazines give us features such as the 10 Best Cities for Business. Where start-ups are concerned, no ranking could be sillier. A fledgling company needs a city that suits its own unique needs—that offers the right combination of robust markets, appropriate business inputs, and support for entrepreneurship. A new clothing manufacturer could succeed in Los Angeles and fail in Des Moines. A telemarketing company might do the exact opposite.

So start by picking what kind of city your company could thrive in. A guide:

Los Angeles (top) and Miami are international in business orientation.

WORLD CAPITALS

PROTOTYPE: 20th century—New York City. 21st century—Los Angeles. The cities that are truly international—in outlook, in population, in business orientation. L.A.'s foreign trade has risen 12% a year since 1980. Immigration between 1980 and the year 2000 is expected to total 6 million.

UP-AND-COMER: Miami. Unemployment's high at the moment, but Latin American trade will revive the almost-bilingual city.

An Entrepreneur's Dream: Plenty of hardworking immigrants. Vast numbers of specialized suppliers and specialty markets. "If you're oriented toward Hispanic or Asian customers, L.A. is the place to be," says Stephen Levy, an expert on California's economy.

An Entrepreneur's Nightmare: Costs, congestion, crime. Riots (at worst) and red tape (at best). Linda Griego spent four years trying to open her first L.A. restaurant. It took so long, she says, because she kept bumping into code violations. Hopeful sign: Griego is now the city's deputy mayor, working to change its attitude toward new business.

An Ideal Location For: Specialty companies. Internationally oriented companies. Financial and business services. The New York metro area has more than 28,000 business-service establishments. L.A. about 18,000. Most of America's other big cities have fewer than 5,000.

POPULATION MAGNETS

PROTOTYPE: Orlando, whose payrolls grew 15% in only two years, before the recession hit. Riverside, Calif., east of Los Angeles, expecting 20% employment growth between now and 1996. Like a river, population is flowing south and west: every one of the top 10 job growers in the next five years is in a Sunbelt state.

UP-AND-COMER: Las Vegas. Still not a big city—1990 metropolitan population was only 750,000—the gambling mecca tops nearly every growth chart. Number of jobs rose 8% in the last two years.

An Entrepreneur's Dream: Plenty of

Las Vegas "can be a dynamite place to start a business."

labor. Plenty of land. Growing markets, both business and consumer. "Las Vegas can be a dynamite place to start a business," says Tom Carns, founder of PDQ Printing. "Most of the companies are small." Like PDQ, your company can grow with its customers.

An Entrepreneur's Nightmare: The curse of any frontier, namely, that a lot

PHOTOGRAPHS TSW—MARK LEWIS; ARTHUR TILLEY; DAVE JACOBS

of people arrived only yesterday. "You wouldn't take a personal check from people here unless they have a check-guarantee card from their bank," says Carns.

The Ideal Location For: Anybody looking for booming local markets. "In a static area, a start-up has to take market share away from existing suppliers," points out Martin Holdrich of Woods & Poole Economics Inc. "Growing areas demand new output and new suppliers." Will population flows reverse themselves? Not anytime soon, says Holdrich.

MIDDLE-OF-THE-ROADERS

PROTOTYPE: Salt Lake City. Not huge, not on either coast, not cosmopolitan, not known for any particular industry. Loved by residents, ignored by everybody else.

UP-AND-COMERS: Kansas City; Des Moines.

Salt Lake City (top) and Des Moines are loved by residents, ignored by everybody else.

An Entrepreneur's Dream: Good education. Utah has the highest literacy rate of any state, Iowa the highest SAT scores, Kansas City the most innovative inner-city school-reform program. Low cost of living. Easy access, internally and externally. "A tie-up on our interstates is when traffic slows to 25," says Jerry Stogsdill of Greater Kansas City's Silicon Prairie Technology Association. "And the airport can sometimes seem like a ghost town, it's so easy to get in and out of."

An Entrepreneur's Nightmare: Shortage of capital, particularly from organized venture-capital firms. Also, "the old perception/reality thing," says one Kansas City business owner, explaining why even local customers look down their noses at homegrown suppliers. "People don't expect to be able to get what they need locally."

The Ideal Location For: Office operations. (Des Moines's insurance industry is second only to Hartford's.) Telemarketers (well-educated workers, no regional accent). Any company selling or shipping from one location to a national market.

RUSTBELT REVIVALS

PROTOTYPE: Pittsburgh. From defunct steel town to most-livable city, in a few short years.

UP-AND-COMERS: Cleveland; Rochester, N.Y. Revivified manufacturing base complemented by new service industries.

Pittsburgh (top) and Cleveland, where city hall and the state house appreciate entrepreneurship.

An Entrepreneur's Dream: Well-established universities set up specialized research-and-development centers, then spin off dozens of advanced-technology companies. City and state governments realize the importance of entrepreneurship. There's "an atmosphere that recognizes the future of this region lies in small business," says Albert Van Kirk of King's Medical Co., in suburban Cleveland.

An Entrepreneur's Nightmare: In some industries, strong unions. "They can make it hard on you if they want to," says a company owner in the construction industry.

The Ideal Location For: Technologically sophisticated manufacturing. Rochester mounts a collaborative effort in next-generation optics-manufacturing technology. The Cleveland Advanced Manufacturing Program helps small companies learn the latest production technology.

URBAN BOUTIQUES

Austin and other urban boutiques represent the 'places of the '90s.'

PROTOTYPES: Austin, Tex.; Cambridge, Mass.; Raleigh-Durham, N.C. Smaller, university-based cities; some are state capitals. Durable economies with high concentrations of Ph.D.'s. "These are the cities that will be growing," says Jim Renzas, executive vice-president of Paragon Decision Resources Inc., in Irvine, Calif. "They're the places of the '90s."

UP-AND-COMERS: Madison, Wis.; Boulder, Colo.

An Entrepreneur's Dream: The urban boutiques keep repopulating themselves with highly educated people. "The most successful companies are knowledge-intensive companies that need to be able to recruit bright, talented people out of good universities," adds Renzas.

An Entrepreneur's Nightmare: A lot of generals, not many soldiers. If your company needs regular, dependable help at lower skill levels, set up shop somewhere else.

An Ideal Location For: R&D. Other high-value-added operations such as specialty professional-service firms.

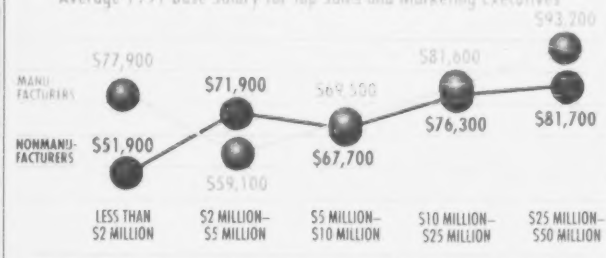
PHOTOGRAPHS: TSW—DAVID FRASER; JAMES BLANK; STEVE ELMORE; PETER PEARSON; ROBERT E. DAEMMRICH

BENCHMARK

Do You Pay Your Top Sales and Marketing Executives Enough?

The figures below should give you an idea of whether the salaries you pay your top marketing people are in the ballpark. In the Northeast, expect to pay your sales and marketing execs 99% of the average; in the Southeast, 101%; in north central states, 97%; in south central states, 87%; and in the West, 116%. Also, a big part of sales and marketing execs' compensation is tied to bonus plans, which vary widely in type and amount.

Average 1991 Base Salary for Top Sales and Marketing Executives



Source: Ernst & Young's 1992 Executive Compensation Middle Market Survey of 669 companies with annual sales of $50 million or less, New York City.

PROMOTIONS

Sampling with a Twist

PRODUCT SAMPLING IS A time-honored, inexpensive way to get people to try something new. For about $100 a day, you can hire a demonstration company to set up a table in the supermarket (see "Product Sampling," Sales & Marketing, October 1991) and give samples to upwards of 500 prospects a day. But when your product is in some 6,000 stores, $100 per demo adds up fast. So tofu maker Nasoya Foods, which uses recipes for its in-store demos, shares demonstration costs with the vendors of products used in the recipes. "It makes it affordable to introduce tofu to a lot more people," says John Paino, president of the $7-million Leominster, Mass., company.

Stonyfield Farm also teams up with its vendors. In March the $14-million maker of yogurt and frozen yogurt in Londonderry, N.H., ran a 30-day promotion with Rebecca's Café, a Boston chain of eight "upscale fast-food" restaurants. Café patrons were treated to a free scoop of Stonyfield frozen yogurt on top of whatever Rebecca's dessert they ordered. Stonyfield gave Rebecca's credit for the frozen yogurt used, and the two companies split the cost of the point-of-sale material—namely, placards proclaiming, "There's only one way to top our desserts." Rebecca's sold about 15% more sliced desserts that month than usual, and in a usually dead month for frozen yogurt, about 1,250 customers opted for it.

Says Stonyfield president Gary Hirshberg: "We don't advertise, and we can't afford supermarket slotting fees, so getting people to taste our product is our entire focus." —*S. G.*

SELLING

Why Continuity Clubs Work

FOR DECADES SOME BOOK PUBLISHERS HAVE MULTIPLIED THEIR sales by persuading customers to pay up front to receive a series of books in the mail over time. Now some small companies are wisely applying the concept of continuity, club, or subscription sales to their own industries. The benefits include—

• **More even cash flow.** "When we didn't have much money, the club helped with cash flow," says Bruce Pavitt, founder of Sub Pop Records, a $1-million independent Seattle record label. To publicize Sub Pop, four years ago Pavitt produced limited editions of seven-inch singles; they sold out quickly at record stores, and disappointed customers complained. So began Pavitt's Single-of-the-Month Club. With 2,500 members, who pay $35 or $60 in advance for 6 or 12 months of new music, the club gave the label a stronger national presence.

• **Lower cost of sales.** A small company can make more money on items sold through a catalog than through retail; with club sales you can also reduce the cost of direct mail. "Instead of printing a catalog and getting just one order out of it, you get all these cumulative orders and can spread the marketing costs out over them," says Dwight McCabe, mail-order director for Starbucks Coffee, a Seattle retailer and distributor of specialty coffees. Starbucks customers sign up to get 6 or 12 months of coffee and pay about $50 or $100 up front. Each mailing promoting the club to the 30,000 existing Starbucks customers costs $40,000, says McCabe. Response rates run as high as 20%. In one recent month, the company's club revenues surpassed mail-order revenues for all of 1991.

• **Predictability of demand.** Ruth Owades has offered "A Year of Flowers" since beginning Calyx & Corolla, an $11-million mail-order flower retailer in San Francisco, in 1988. Customers sign up for 3-, 6-, or 12-month subscriptions and pay $110, $205, or $375 in advance for orchids in February, heather in March, and so on. Depending on the season, club sales account for from 15% to 40% of revenues—smoothing out fluctuations in Owades's seasonal business. "I wish we could forecast the whole year this way," she says, "but the club at least gives us some basis for projections." —*M. P. C.*

▼ ▼ ▼ ▼ ▼

CAVEATS OF SUBSCRIPTION SALES

Club sales are not for mail-order neophytes. Handling fulfillment presents an unusual computer-programming puzzle with few fixed parameters. When Ruth Owades set up her company and her flower-of-the-month club, she hired Nashbar/Associates, a mail-order consulting firm in Youngstown, Ohio, to develop the computer systems that handle Calyx's orders, tracking, and billing. Nashbar defined every possibility: Is the duration of the subscription fixed or open-ended? Do customers pay up front or upon receipt? Can they return a delivery? Nashbar systems start at $70,000.

If you can't afford to make the ongoing investment in software and personnel, consider handing over fulfillment to a service bureau. For names of bureaus, consult the advertisements in trade journals like *Catalog Age* (203-358-9900) or call the Direct Marketing Association (212-768-7277) for a list of recommendations. —*M. P. C.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

WORK FORCE

Screening New Hires

EMPLOYEE-SCREENING COMPANIES OFFER ONE OF THE CHEAPEST and fastest ways to help you hire successfully. A multiservice screening company's background check on a prospective employee will verify educational and work history; check social-security number, as well as driving and credit records; and look into past criminal activity and public filings. Many also do psychological, physical, and drug testing.

Those defensive measures won't find you the best candidate, but they'll quickly rule out those who misrepresent themselves. That's a bigger problem than you may think. Carl King, president of Team Building Systems, an employee screener in Houston, Tex., says 30% of all résumés are falsified.

An average background check costs about $100. But finding the best screener, listed under "management consultants" in the yellow pages, may take a bit of your own investigation. Here's what to ask:

- **Can you do it all?** You may not sign on for every service, but find out what's available. Also ask about turnaround time.
- **How do you get your information?** In addition to databases, the company should have researchers for less accessible information. Also be sure the screener can explain the legal limits to the information it can get in various states.
- **What's your background?** Look for experience, preferably accompanied by a professional degree in personnel, criminal justice, or industrial psychology.
- **Could I see a sample copy of the report I'll be getting?** Better yet, ask the company if it will run a background check on *you*.
- **Do you use your own services?** Yes is the right answer. Ask how often.
- **Can I have five references from longtime clients?** Call them.

Finally, you should ask your state's Department of Consumer Affairs if the company is licensed, and check to see if any complaints have been lodged against it with your Better Business Bureau or chamber of commerce.

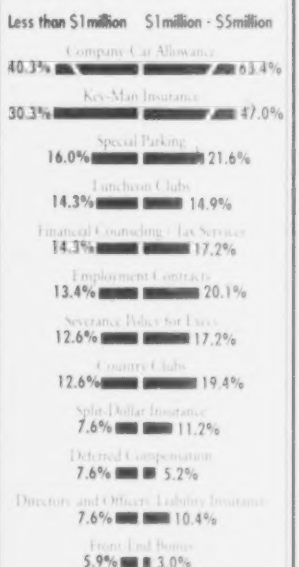
—*E. E. S.*

BENCHMARK

Popular Perks

The most common special privileges granted to employees of small companies are a company-car allowance, key-man insurance, and special parking, according to a survey by Ernst & Young. Once a company hits $1 million in sales, employment contracts and country-club memberships supplant luncheon clubs and tax services as the next-most-favored perks.

Perquisite Offered by Companies with Sales of



Source: Ernst & Young's 1992 Executive Compensation Middle Market Survey, of 669 companies with annual sales of $50 million or less, New York City

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

RESOURCES

Finding Management Temps

A surfeit of highly seasoned managers, usually refugees from restructured corporations, is causing interim-management agencies to flourish. (See "Outsourcing Your Top Management," below.) Here are five that frequently deal with small and midsize companies:

Princeton Entrepreneurial Resources
Princeton, N.J. (609-243-0010)
Karin Stratmeyer, president
Database of 5,000 names

Executive Corner
(Owned by Robert Half International)
Menlo Park, Calif. (415-329-8100)
Max Messmer, chairman

Dahl-Morrow International
Reston, Va. (703-648-1594)
Barbara Steinem, president
Database of 7,000 names

Klivans, Becker and Smith
Cleveland (216-621-2970)
Richard Smith, president
Database of more than 4,000 names

IMCOR (Interim Management Corp.)
New York City (212-213-3600)
John Thompson, chairman
Database of 8,000 names

—*E. E. S.*

HIRING

Outsourcing Your Top Management

THE WAY DICK ATKINS SEES IT, the *Fortune* 500's loss is small corporate America's gain. Displaced professional managers have been flocking to "interim-management" agencies, which rent out top execs for 6- to 12-month stints. "It's a key opportunity for a small company to attract very seasoned and experienced executives without making a long-term commitment," claims Atkins, president of AD/SAT, a New York City distributor of advertising via satellite.

Because the stakes are so high in an upper-level position, the benefits of a temporary union are magnified. Most compelling: companies with a specific problem can bring in someone with proven skills to solve it. If the executive isn't succeeding, "it's much easier to end the relationship without severance packages," says Atkins.

Other advantages: interim managers have little interest in the company's internal politics; an interim manager's paycheck doesn't upset the internal salary structure; entrepreneurs can give power sharing a whirl; companies can keep a job open for managers who are ill or on sabbatical.

Naturally, there are some potential pitfalls. Employees may not be interested in bringing the new senior vice-president up to speed when they know they'll have to do it all over again in six months. Or worse, key employees may feel resentful that they weren't selected for the job.

Temporary managers are also pricey. Though fees vary, interim-placement companies generally charge a premium of from 30% to 50% of a full-time executive's base salary, prorated for his or her length of stay. That's hefty, no question, but the placement companies argue that temporary execs are still a bargain compared with permanent hires. In addition to a base salary, a high-caliber, permanent manager would normally expect benefits, a golden parachute, a bonus, and perks—which would easily equal 75% to 100% of salary.

—*E. E. S.*

INVENTORY

Tracking Useful Inventory Trends

MELBURN WHITMIRE'S WHITMIRE DISTRIBUTION, A WHOLESALE pharmaceutical distributor based in Folsom, Calif., spent three years developing a high-quality inventory-management system, which Whitmire provides at no charge to his 7,000 customers. Here's advice for any business setting up an inventory-management system:

• **Concentrate on high-turnover items.** Whitmire divides his customers' products into four categories, depending on how quickly they have turned over historically. Then he recommends that the customers' managers analyze products "every way imaginable, from the size of financial investments in them to their turnover cycles," to look for ways to reduce inventory.

• **Test your information.** To make certain his biggest customers—pharmacies and hospitals—could easily track their orders, turnover rates, and storage costs, Whitmire test-marketed his method with a group of customers as well as with his own key managers. Many customers have been able to reduce on-site storage needs by as much as 40%. —*J. A. F.*

RESOURCE

Getting Paid

Mastering Collections: Business to Business (K&F Seminars, 800-633-6069) won't be anyone's idea of a fun read. But this 130-page paperback written by Donald Kramer, a collections lawyer at Kramer & Frank, in St. Louis, is valuable all the same for its exhaustive advice on everything from setting up effective record-keeping and tickler systems, to carrying out a five-step collection "action plan."

Kramer's suggestions are useful for companies of all sizes, particularly small and growing businesses that don't have full-scale accounts-receivable departments.

In one especially useful section, Kramer advises companies to negotiate for personal guarantees from customers that will cover *past* as well as future obligations and will include protection in case the guarantor dies. (Samples of personal guarantees, collection letters, and other documents are included.) Kramer also helps readers evaluate the costs and benefits of credit insurance.

Motivated readers can test their newfound skills with the pop quizzes that follow each chapter. But even without the quizzes, the book is well worth its $39 price tag.

—*J. A. F.*

ESTATE PLANNING

A Guide to Trusts

WHEN IT COMES TO ESTATE planning, trusts can be invaluable in reducing future taxes. "As a general rule, anyone with total assets—including a home or business—worth more than $1 million should use trusts in his or her estate plan," says Joshua Rubenstein, a partner in the New York City law firm Rosenman & Colin.

Unfortunately, surveys indicate that trusts are seldom used by the owners of growing businesses (see "Missed Estate-Planning Opportunities," right), perhaps because they seem intimidating. In fact, they're relatively simple legal documents that split the ownership rights for any asset into two parts: financial interests and legal control. The goal is usually to reduce future taxes.

Normally, both those rights belong to an asset's owner. But he or she can design a trust so that beneficiary rights (the cash) will go to children or a spouse, while legal rights (such as the ability to control investment decisions) will pass to an official trustee, often an accountant or a lawyer.

While there are many trusts to choose from, Rubenstein recommends these two:

Credit Shelter (or Bypass) Trust. This trust helps ensure that your kids save estate taxes on the maximum amount permitted by law (currently $600,000 for each person's estate, $1.2 million for the estates of a married couple). If either spouse dies first, $600,000 worth of his or her estate passes into a trust, which the surviving spouse can benefit from but doesn't legally own; after the survivor's death, the trust passes on to the children free of estate taxes, as does $600,000 from the other spouse's estate.

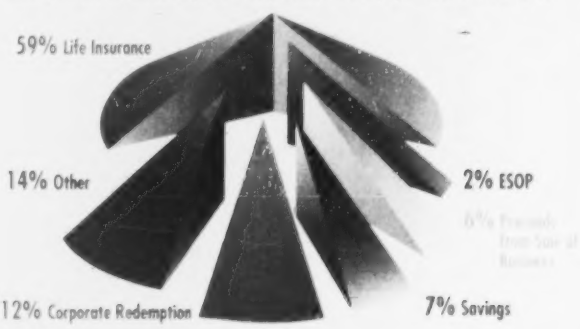
Insurance Trust. When you assign ownership of your life-insurance policy to a trust that your heirs can benefit from but will not legally own, the death benefit escapes estate taxes. Here's how: When the insured person dies, that person's *insurance trust* legally owns the proceeds of his or her insurance policy; since the trust owns it, the IRS can't assess gift taxes. Then the trustee (who controls legal ownership) can distribute income or principal to the heirs (who own "beneficiary" rights), still free of estate taxes. Sounds too good to be true, but it's not. —*J. A. F.*

BENCHMARK

Missed Estate-Planning Opportunities

When it comes to estate planning, accounting firm BDO Seidman found that most middle-market company owners relied on life insurance to pay for estate taxes that currently run as high as 55%. Too bad. Insurance is costly, and sometimes unnecessary when tax-advantaged strategies such as trusts (see "A Guide to Trusts," above) can be used instead.

Which of these methods do you use to provide for the payment of estate taxes?



Source: "Pulse of the Middle Market," a BDO Seidman survey of 2,201 companies, 88% with annual revenues of less than $50 million, New York City, 1991.

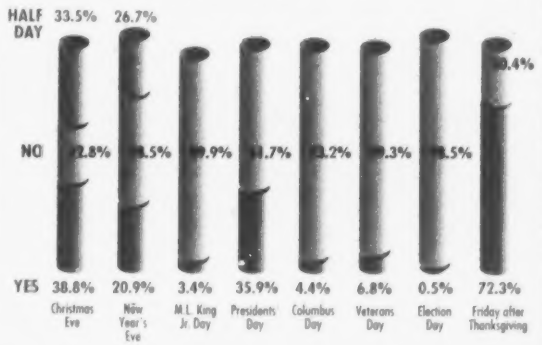
CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

IN THE OFFICE

BENCHMARK

Sorry, Our Office Is Closed

In a recent poll of small-business CEOs, *Inc.* asked, "On what holidays, other than the six traditional ones, do you close your office?" The answer, as pictured below: not all are generous with the extras. But, the survey showed, there's more than just holidays for CEOs to contend with.



Come August, commerce in many countries closes down and takes to the beach en masse. Not so here. An *Inc.* poll of the vacation policies of U.S. small businesses reveals that a mere 5.8% declare companywide hiatuses. If anything, the trend on these shores is toward trendlessness. In addition to regular vacations, some CEOs throw in "floating," "personal," or "discretionary" days, to be used at an employee's option. And a substantial number—18% of respondents—also give an employee his or her birthday off. (One CEO declares his own birthday an annual holiday.) The most liberal policy is for illness, with 69.4% allowing five or more paid sick days.

Because many employees tacitly take the odd day anyway, 26.7% of the CEOs surveyed close the office on Fridays that follow Thursday holidays, and Mondays that precede Tuesday holidays; another 14.1% don't, but they admit they tolerate absence. More than half (54.4%) do not grant religious holidays such as Good Friday or Passover.

CEOs are split on the amount of vacation a new employee merits: 44.2% say one week; 48.5% say two. Employees who have completed five years still get just two weeks from 31.6% of the CEOs—but three weeks from 56.8%, and four or more from 7.3%. And 10-year employees get four weeks or more from 35% of the polled companies. As for the putatively hardworking CEOs, last year 20.9% awarded themselves at least four weeks. *—R.A.M.*

Source: Survey of 206 companies, 72% with sales of $20 million or less, by *Inc.* and The Executive Committee, San Diego, 1992.

OFFICE EQUIPMENT

Slightly Used, Plenty-Cheap Decor

OK, SO BLUELINE SOFTWARE'S fixtures don't match. Then again, its founder is no spendthrift decorator. He's a frugal executive who buys at auctions and, for a mere $400 each, has outfitted the offices in his 70-employee Minneapolis enterprise with furniture and equipment that would have cost $2,500 new. As a result, the interior of Bill Cecchi's six-year-old, $9-million company vibrates with a luck-of-the-gavel din of shapes and colors. But it hardly looks chintzy. Cecchi once paid $100 each for a mismatched lot of top-of-the-line desk chairs worth $800 apiece. "If we bought a *new* chair for $100," he figures, "it wouldn't last six months."

Cecchi got going by scouring newspaper ads for liquidations. (He's open to everything except computers, which, he grants, are discounted deeply enough new.) Now that he's been bargain hunting for six years, auctioneers alert him directly. But the problem remains that bankruptcy sales are usually held on weekdays, so someone from the office has to stand vigil—an on-the-clock chore Cecchi leaves to his office manager. The efficient way to approach any auction, he advises, is to research the retail p[illegible] of the brand-name accoutrements described in the announcement, arrive early to examine authenticity and condition, decide what you're willing to spend per item, and stick to that limit lest you get seduced by bidding's competitive cadence. "I've seen people pay more at auction," he cautions, "than they'd have paid for the same furniture new."

Other considerations:

- **You don't always find what you want.** A thrifty furnisher must have foresight, patience, and cash. Cecchi starts to shop six months in advance of upcoming needs and has acquired irresistibly cheap goods the company doesn't need on the gamble that someday it will.
- **You don't get warranties.** Items sold at auction are unreturnable. Cecchi fearlessly shelled out $2,200 for 11 fancy shelving-and-storage cubes, not only because they were a spectacular deal—they would have cost $33,000 retail—but because "what could go wrong with an office cube?"
- **You don't get free delivery.** Trucking can run up costs. But someone in the office must have a pickup.
- **You don't get payment terms.** It's a rare distress sale that isn't cash and carry.

—Michael P. Cronin

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Edited by Robert A. Mamis

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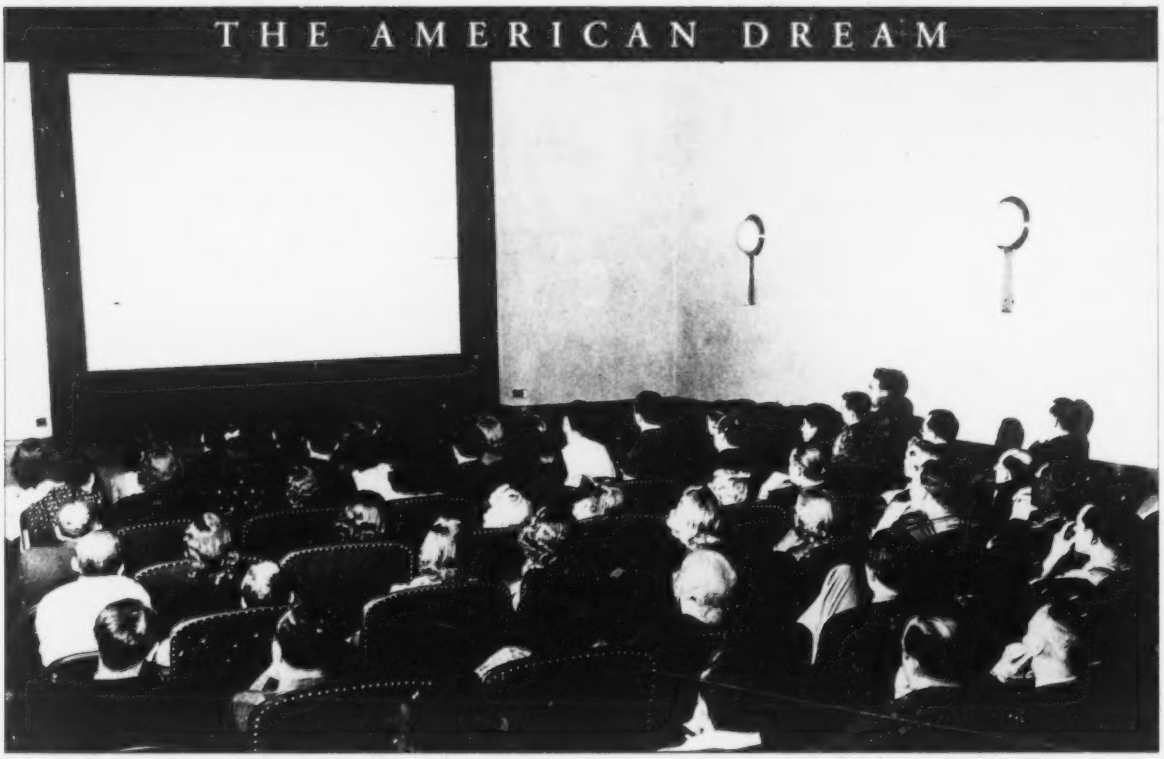
THE AMERICAN DREAM



BUSINESS FOR SALE—VINTAGE IDAHO MOVIE THEATER

THE BUSINESS A charming, vintage, single-screen, 249-seat movie theater in the heart of Idaho's scenic Big Lost River Valley, approximately 45 miles northeast of Sun Valley. The theater operated from Christmas Day, 1940, until 1982, closed for eight years, then reopened in May 1991 after a complete—and historically sensitive—overhaul by the sellers. Currently there are six screenings a week, and ticket sales produce 75% of revenues. (Concessions account for the rest.) The sellers, a young couple enamored of weekend travel, want a change of lifestyle.

FINANCIAL SUMMARY

	1992	1993*
Gross revenues	$50,000	$75,000
Recast earnings before interest, taxes, depreciation and owner compensation	$10,700	$18,500

*projected

PRICE $135,000

OUTLOOK This theater is pure Americana, but it belongs to a dying breed: since the late 1960s, single-screen facilities have been gradually supplanted by department-store-like multiplexes. And though ticket-price inflation has kept the movie industry's box-office gross rising (to nearly $5 billion at last count), movie-theater *attendance*, thanks to video and cable, has been flat for a decade. Insiders wonder, Do nonmultiplex theaters make economic sense anymore?

PRICE RATIONALE The price includes 4,000 square feet of Mackay, Idaho (population 530), history: the theater was originally the town grocery store, and the adjacent concession area was the corner saloon and later a restaurant. (Counter stools, antique wooden booths, and jukebox are still in place.) The current owners spent $90,000 on renovations, and industry gurus say their 21% first-year margin was good. The price, according to those same gurus, may not be. Earnings multiples for independent theaters generally run to 5 or 6, not the 7.3 (on *projections*) sought here. But reopen the restaurant, and the equation could change.

PROS The potential (there's room inside to expand), the fun, and the complete lack of competition—the closest rival is more than 100 miles away.

CONS The gross (don't quit your day job), the price, and the *reason* there's no competition—with 7,000 people in the valley, there's not much of a customer base, either.

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Jim and Ruth Muffett, 208-588-2285.

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